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RUEHBUL/AMEMBASSY KABUL 2585  
RUEHKT/AMEMBASSY KATHMANDU 0606  
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SIPDIS

DEPARTMENT FOR SCA/CEN AND EB  
ASTANA FOR ALMATY/USAID

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SUBJECT: UZBEKISTAN: EBRD LOOKS TO THE FUTURE

REF: TASHKENT 729

Classified By: Economic Officer Robert McCutcheon for reasons 1.4 (B,D)

11. (SBU) SUMMARY: The head of the EBRD's Tashkent office briefed the diplomatic community on plans for a new country strategy for Uzbekistan to replace the one that has been in place since 2005. The new strategy can be expected to show a marked increase in EBRD involvement in Uzbekistan compared with recent years but will still be small compared with EBRD's role in other countries of operation. END SUMMARY

12. (SBU) On June 25 Fernand Pillonel, Head of the Tashkent Office of the European Bank for Reconstruction and Development (EBRD), briefed representatives of EBRD shareholder countries and countries of operation on the activities and strategy of EBRD in Uzbekistan. Reviewing the history of activities in Uzbekistan, Pillonel said that since the 1990s the EBRD has made commitments of over 500 million Euros. EBRD's annual business volume (ABV) reached a high point of 157 million Euros in 1997 but slowed markedly beginning in 2001 and further still after 2003.

13. (SBU) Pillonel reviewed EBRD's "Strategy for Uzbekistan" that was adopted in 2005. Under this strategy that remains in effect today, the EBRD supported private sector investment and entrepreneurship provided there was no direct or indirect link to the GOU or GOU officials. The bank focused its attention on small business lending and on promotion of foreign investment. In 2007 EBRD supported five corporate projects ranging from a brewery and an ice cream company to renovation of a hotel in Khiva. It also supported three financial projects, one for microfinancing and two for loans to small and medium businesses (SME). EBRD's 2007 ABV in Uzbekistan increased to 17 million Euros following its all-time low of 5.3 million Euros in 2006. In 2008 EBRD's ABV is expected to reach 20 million Euros, which Pillonel noted is still quite small compared with the 6 billion Euros that the EBRD expended in all countries of operation in 2008, its 1 billion Euro ABV in Ukraine, and its 3 billion Euro ABV in the Russian Federation.

14. (C) Pillonel said the EBRD is beginning work on a new "Strategy for Uzbekistan" that it will be ready to present to the GOU this fall. He noted that Uzbekistan is one of three countries that along with Belarus and Turkmenistan has "Article 1" restrictions for failing to demonstrate its "commitment to and application of the principles of

multiparty democracy, pluralism, and market economics." Nevertheless, Pilonnel pointed to the trend towards improved bilateral relations between Uzbekistan and most EBRD shareholder countries as well as the World Bank's (WB) new 2008-2011 Country Assistance Strategy for Uzbekistan. Pilonnel continued that although the EBRD should not be expected to follow in the steps of what he described as the WB's "U-turn" in regards to Uzbekistan, he said that EBRD's role can be expected to increase. The most likely road for EBRD will be a "middle path" that will allow for renewed cooperation with the GOU on public sector projects such as energy efficiency and municipal projects such as water and trash. Citing the improvement in the WB's relations with Uzbekistan following Robert Zoellick's replacement of Paul Wolfowitz as WB President, Pillonel commented that the EBRD's selection of Thomas Mirow to replace outgoing President Jean Lemierre could have the same positive effect on EBRD-Uzbek relations.

#### COMMENT

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15. (C) Pillonel's assessment of improved EBRD involvement in Uzbekistan contrasts with the negative impression given in our earlier meeting with EBRD Alternate Director Turan Oz (reftel). The future role of EBRD in Uzbekistan will depend on whether the "carrots" the EBRD can offer are appetizing enough to remove it from the bad grace it has been in since EBRD President Lemierre publicly humiliated Uzbek President Karimov in 2003.  
NORLAND